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SENSITIVE
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STATE FOR SCA/INS AND EEB
USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR
DEPT PASS TO USTR CLILIENTFELD/AADLER/CHINCKLEY
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
USDA PASS FAS/OCRA/RADLER/BEAN/FERUS
EEB/CIP DAS GROSS, FSAEED, MSELINGER

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BEXP, KBIO, KIPR, KWMN, IN

SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF MAY
11 TO MAY 15, 2009

¶1. (U) Below is a compilation of economic highlights from Embassy
New Delhi for the week of May 11-15, 2009, including the following:

- Exports Continue Contraction
- March Industry Growth Down
- But Manufacturing Sector Showing Revival Signs
- Consumer Inflation Shows Some Abatement
- SEZ Proposals Waiting for New Government
- No Safeguard Duty on Steel for now
- EU Challenges India's "Assessment Fee" on Wines and Spirits
- Press Notes on FDI To Be Revisited
- Commerce Secretary Pillai on WTO Doha Round and Wheat Exports
- India Allows Export of 1 MT Long Grain
- Tata Unveils its First "Nano Housing" Development

Exports Continue Contraction

¶2. (U) India's exports shrunk for the seventh consecutive month in April 2009, falling by 33 percent compared to the same month last year. Imports too contracted by 32 percent to \$16 billion in April 2009. Analysts opine that demand slowdown in key export markets like the US and Europe, which account for over 40 per cent of India's exports, and a high base effect were the main reasons for the sharp fall in exports. With imports declining at a faster rate than exports, the trade deficit narrowed to \$5.3 billion in April 2009 as compared to \$8.75 billion in the corresponding month a year ago. In FY 2008-09, exports had grown by an average of 30 percent through September, when the global financial crisis and economic downturn slowed demand in the US and Europe. Given the decline in exports since October, exports for the total fiscal year of April 2008 to March 2009 expanded by only 3.4 per cent to reach \$168 billion, missing the Commerce Ministry's lowered target of \$175 billion.

March Industry Growth Down

¶3. (U) India's industrial output, as measured by the Industrial Index of Production (IIP) declined by 2.3 percent in March, due considerably to a high base effect but also because of the sharp fall in exports. (Note: In March, exports fell by one-third, compared to March 2008 when they rose by 18.6 percent. End note.)

The manufacturing sector, which comprises about 80 percent of the IIP, fell to a low of negative 3.3 percent compared to the same month the previous year. Electricity production was more encouraging, up 6.3 percent in March 2009 from an average growth of 2-3 percent over previous months. In use-based terms, the capital goods sector declined by 8.2 percent, suggesting a slowdown in private investment. Consumer goods too remained in negative territory at -0.8 percent for the second consecutive month, due to a fall in non-durables. However, consumer durable goods recorded a healthy growth of 8.3 percent, primarily attributed to the impact of the payment of arrears of salaries to government employees and the RBI's easing of monetary policy since October 2008. Industrial growth for the full FY 2008-09 was just 2.4 percent, versus 8.5 percent in FY 2007-08. However, the last several months' IIP has been revised upwards, suggesting a modest increase in the final revised IIP performance.

¶4. (U) Saumitra Chaudhuri, Member of the Prime Minister's Economic Advisory Council and Principal Economic Advisor at Credit Rating Agency ICRA, cautioned against too much reliance on the IIP, asserting that the "IIP has been underestimating growth by 3-4 percent over the years. This is evident from the difference between growth in manufacturing as captured by the IIP and GDP. So at best, the IIP numbers are indicative of a trend. But a contraction in industrial growth is baseless". Overall, most analysts expect an uptick in April's industrial production, as car sales have picked up in the last three months, freight and port traffic have also shown an increase and sectors such as steel and cement have shown an improvement. RBI Governor Subbarao remarked that he expects India's economic recovery to be sharper and swifter than that of others once the world economy starts to recover, as he sees India's economy backed by strong fundamentals and untapped growth potential.

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But Manufacturing Sector Showing Revival Signs

¶5. (U) A survey undertaken by the Confederation of Indian Industry (CII) has revealed a higher percentage of firms reporting positive growth in sales in the three month ended March 2009, compared with that in the preceding quarter (October-December 2008). The increase points to a marginal recovery in manufacturing, with a few sectors moving from negative growth to moderate growth. Director-General of CII, Chandrajit Banerjee, remarked that "...there are some green shoots from a few sectors that have demonstrated a marginal pickup during the second half of 2008-09 when compared with the first half. These demonstrate a cautious optimism on signs of recovery." According to the survey, sectors that moved from negative growth to moderate growth include fertilizers, chemicals, pig iron, steel and two-wheelers. Despite the improvement, manufacturing growth still remains low on a year-on-year basis: while over 15 percent of manufacturing sectors reported excellent growth in FY08, only six percent did so in FY08-09. Thirty percent of sectors reported a decline in production at the end of FY08-09, as opposed to just six percent in FY08.

Consumer Inflation Shows Some Abatement

¶6. (U) The government belatedly released its latest consumer price indices (CPI) figures this week, noting consumer inflation for March. The inflation rate as measured by the CPI for industrial workers fell by more than 1.5 percentage points to 8.03 percent in March compared to 9.63 percent in February. The CPI for agricultural workers and rural workers fell to 9.46 percent and 9.69 percent respectively compared to 10.79 percent for both indices in February 2009. CPI has been trending much higher than the wholesale price index (WPI), which has been under one per cent since early March. This is mainly due to the significant weight of food articles in the CPI compared to the WPI. Food prices have been high in recent months, stemming from seasonal spikes in fruits, vegetables, and sugar, as well as higher prices in pulses prompted by less private imports. Meanwhile, WPI, which is more generally tracked in India since it is a broader and more frequently released index, slightly dipped to 0.48% for the week ending May 2, compared to the same period the year before. WPI inflation the week before was slightly higher, at 0.70.

SEZ Proposals Waiting for New Government

¶7. (U) As of March 31, 2008, the empowered board of approvals (the Board) on Special Economic Zones (SEZs) had approved 568 SEZs, gave 144 'in-principle' approvals, and 311 notifications. However, since then, and in light of the financial crisis, some of the approved SEZ proposals have been withdrawn or put on hold. Ministry of Commerce officials told media that a large number of SEZ developers have sought extra time to complete their projects due to a lack of funds.

For example, major real estate players like DLF and Parsvanath have been unable to raise funds for their SEZ projects, and DLF reportedly approached the government on surrendering four of its nine notified SEZs, while Parsvanath has put twelve of its IT SEZ projects on hold. Moreover, although the Board is scheduled to consider eighteen SEZ proposals after the new government in India assumes office later this month, it remains to be seen whether the ministry will approve the SEZ proposals in accordance with the policy framework of the present government, if the same coalition does not return to power.

No Safeguard Duty on Steel for now

¶8. (U) The Government of India (GOI)'s Board of Approvals, headed by Commerce Industry Secretary GK Pillai, recently deferred a decision on whether to impose a special import duty on hot-rolled steel. The decision was taken despite a recommendation by the Ministry of Finance's Directorate General of Safeguards to impose a 25 percent safeguard duty on flat steel products such as hot-rolled steel. The Board stated that it wants to look at the submissions of

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all stakeholders before making a final decision, since domestic producers who use the imported steel as an input would be hurt by the increased steel cost. Domestic steel manufacturers Essar Steel and Ispat Industries had filed complaints seeking protection against imports of the product. India has lately re-commenced the use of safeguard duties to protect domestic industry against alleged import surges, as the procedure for imposing anti-dumping duties is more time-consuming. While the safeguard duty has only been imposed on a single chemical in recent months, the directorate of safeguards is carrying out investigations into a number of products.

¶9. (U) Faced with recessionary conditions, the domestic steel industry in India is trying to sustain its margins. Following shrinking global demand, Indian steel makers are reportedly finding it difficult to continue operating loss-making foreign subsidiary operations. According to recent press reports, an Indian steel giant, Jindal Steel Works (JSW), plans to sell its plants in the U.S. to cut losses, although a senior manager of JSW immediately denied the media report. Similarly, Tata Steel's Corus unit is reportedly planning to shut temporarily some of its economically unviable plants in Europe. According to a Tata Steel executive, the temporary closure of some of its loss-making units since October 2008 has saved the company around \$650 million, and the company is now planning to set up new production capacities of up to 3 million tons within India by 2012. As India's largest steel maker, Tata Steel has said it is counting on its domestic operations to help the company maintain profitability, based on its estimate of domestic steel demand growth of 5-6 percent during the current year.

EU Challenges India's "Assessment Fee" on Wines and Spirits

¶10. (U) The European Union recently asked for additional WTO consultations with the Government of India (GOI) over the imposition of an "assessment fee" levied by the state of Andhra Pradesh on imported whiskies. The EU in their complaint claims "the assessment fee levied by Andhra Pradesh appears to apply at rates which are inversely proportional to the assessable value of imported wines and spirits in the range of 100 per cent to 15 per cent ad valorem for imported wines and 200 per cent to 60 per cent ad valorem for imported spirits, respectively". The EU also claims that the fee is not levied on similar products manufactured by Indian producers, and thus it violates "national treatment" principle of the WTO mandate. India has 60 days to respond to the EU request. If the two sides

fail to amicably resolve the issue, Brussels may ask for a WTO dispute settlement panel. Last year, the EU called India for dispute settlement consultations on state levies imposed by Maharashtra, Goa, and Tamil Nadu on imported wines and spirits claiming additional taxes higher than that imposed on domestic products. The EU later suspended the proceeding after the GOI removed the additional taxes.

Press Notes on FDI To Be Revisited

¶11. (U) According to local media, the controversial 2009 Press Notes 2, 3, and 4 will be revised by the government to close loopholes that would otherwise allow companies to exceed caps on foreign direct investment. The February press notes, in an effort to simplify how FDI is calculated, stated that if Indian promoters hold a majority stake in a company, it would be considered Indian-owned, and their downstream investments above sectoral caps would be permitted. Many interpreted the notes to signify that as long as the company is considered Indian-owned, it would be able to invest through joint ventures in other companies operating in sectors where FDI is currently limited or prohibited, such as banking, insurance and multi-brand retail.

¶12. (U) The Ministry of Commerce and Industry has indicated that the clarification to the Press Notes would note that the new guidelines do not apply to the banking sector, and is currently consulting with the Ministry of Finance and the RBI to resolve the issue. The clarification will also likely revise how portfolio

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investment through Foreign Institutional Investors (FIIs) is calculated. The Press Notes included FII investment in total FDI limits, inadvertently changing the classification of ICICI Bank and HDFC Ltd to "foreign owned" due to the total of their FII and FDI holdings. Separating FII and FDI in a clarification would allow ICICI and HDFC to be categorized as "Indian-owned" again, avoiding the restrictions imposed on foreign banks.

¶13. (U) Two major companies have notably taken steps to take advantage of the new calculation rules. Pantaloon Retail and media house UTV (FDI is prohibited in multi-brand retail and limited to 26 percent in media) have restructured their companies to allow for FDI through step-down subsidiaries or joint ventures. The changes and any investments are in violation of the government's FDI policy, but seem to be permitted by the Press Notes.

Commerce Secretary Pillai on WTO Doha Round and Wheat Exports

¶14. (U) Speaking at a May 14 conference on the WTO Doha Round organized by Indian business chamber FICCI, Commerce Secretary GK Pillai indicated that a mini-ministerial to 'take stock' of the Round would take place in Geneva in November. Pillai said that if the U.S. insists on a 'new approach', the talks were likely to be delayed indefinitely as other members would come forward as well with new issues for inclusion. "If the U.S. wants issues like labor and environment to be included in the talks, we too would come up with our own set of issues like disciplining of "green box" farm subsidies and non-tariff barriers. Then you are in for a major extension of timelines," warned Pillai.

¶15. (U) During the FICCI conference, Pillai also stated that the GOI had decided to permit up to 2 million tons of wheat to be exported after the national elections. However, given that domestic Indian wheat prices are below prevailing international wheat prices, exports are unlikely without government export subsidies.

India Allows Export of 1 MT Long Grain

¶16. (U) Easing trade curbs on food grains, the government of India (GOI) recently allowed non-basmati rice exports of about one million tons by state firms (MMTC, STC and PEC) to 21 countries. The new guidelines also require that broken rice should account for at least a quarter of exports, state firms should ensure shipments do not raise local prices, and export consignments should be sourced from

more than one state. The announcement follows piling surplus stocks of rice since October-November 2008. India banned non-basmati rice exports last year to deal with shortages at home; however, a bumper harvest crop motivated it to lift curbs and allow sales of specified quantities to some countries. Earlier, in January 2009, the GOI abolished the export tax on basmati rice, and reduced the floor price for shipments. Indian exporters of rice have been lobbying for lifting of the ban considering production estimates of rice of about 99 MT (up 2.3 percent from last year) in the current crop year ending June 2009.

Tata Unveils its First "Nano Housing" Development

¶17. (U) Following the recent launch of Tata Motors' Nano, called the world's cheapest car, another Tata group company, Tata Housing, announced its plan to build low cost homes across India. The first of what is being referred to in the press as "nano housing" developments will be in Boisar, approximately 60 miles outside of Mumbai. The Boisar development will consist of 1,200 one bedroom apartments ranging from 283 to 465 square feet in size and costing between about USD 7,800 to 13,400. Like the distribution system used for the Tata Nano, the apartments will be allocated by lottery shortly after the close of the announced booking period (June 1 through June 15, 2009). According to media reports, Tata Housing plans to build as many as 15,000 similar affordable homes over the next four years.

¶18. (U) Visit New Delhi's Classified Website:

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<http://www.state.sgov/p/sa/newdelhi>.

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